

CITY OF KARRATHA

PERIOD OF AUDIT: YEAR ENDED 30 JUNE 2021

FINDINGS IDENTIFIED DURING THE FINAL AUDIT

INDEX OF FINDINGS	RATING		
	Significant	Moderate	Minor
1. Excessive leave entitlements accruing at reporting date		✓	

KEY TO RATINGS

The Ratings in this management letter are based on the audit team's assessment of risks and concerns with respect to the probability and/or consequence of adverse outcomes if action is not taken. We give consideration to these potential adverse outcomes in the context of both quantitative impact (for example financial loss) and qualitative impact (for example inefficiency, non-compliance, poor service to the public or loss of public confidence).

- Significant** - Those findings where there is potentially a significant risk to the entity should the finding not be addressed by the entity promptly. A significant rating may be reported as a matter of non-compliance in the audit report in the current year, or in a subsequent reporting period if not addressed. However, even if the issue is not likely to impact the audit report, it should be addressed promptly.
- Moderate** - Those findings which are of sufficient concern to warrant action being taken by the entity as soon as practicable.
- Minor** - Those findings that are not of primary concern but still warrant action being taken.

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1. Excessive leave entitlements accruing at reporting date

Finding

During the course of our audit, we noted the following excessive leave entitlements at reporting date:

Type	Cumulative hours	No of employees	Total value \$
Annual Leave	>300<400	25	540,060
Annual Leave	>400	15	485,622
Long service leave	>300<400	19	411,381
Long service leave	>400	23	865,268

This finding was raised in 2019-20, with the management comment included below:

Management comment 2019-20

The City reviews annual leave balances on a fortnightly basis. Employees are sent an email once they have accrued 10 weeks annual leave. Once the employee accrues 12 weeks leave, they are issued a letter advising they need to submit a leave plan. Some of the employees identified as having excess annual leave had leave plans cancelled or postponed due to COVID.

Responsible person: Manager Human Resources

Completion date: Ongoing

Rating: Moderate**Implication**

Excessive leave entitlements can result in increased employee costs as the liability increases in conjunction with staff salary increments. In addition, if employees do not take leave, this can have a detrimental effect on their health, wellbeing and as a result their performance at work. Best practice guidelines encourage employees to take their leave regularly. Further, requiring staff to take leave periodically allows for an increase of segregation and rotation of duties and reduces the risk to perpetrate or conceal fraud.

Recommendation

We recommend that management formalise a plan on the utilisation of annual leave balances which may include a capped limit on balances that can be carried forward to the next financial year. An action plan should be developed to reduce the accrued leave entitlements of staff, taking into account the circumstances of the individual as well as the needs of the City. This could include paying out a portion of annual leave when it has increased past a certain number of weeks.

Management comment:

The City's Enterprise Agreement provides a capped limit of 12 weeks annual leave. The Enterprise Agreement also includes provision to pay out excess annual leave at the request of the employee. The City regularly encourages employees to take leave but cannot require this except in cases where employees have greater than 12 weeks. Only 3 of the employees

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identified above had greater than 12 weeks annual leave at the reporting date and all of these have plans to reduce their leave.

The City's turnover rate has been increasing over the last 12 months and is currently at 46%. This means some staff are unable to take leave due to staff shortages.

As the WA borders have been closed consistently this year due to COVID-19, some of the employees identified as having excess annual leave cancelled or postponed their leave.

Responsible person: Manager Human Resources

Completion date: 11 February 2022